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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BAC4634 – CORPORATE ACCOUNTING II
(All sections / Groups)

21 OCTOBER 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 6 pages (excluding the cover) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Blue Energy Berhad is a Malaysian listed company. The functional currency of Blue Energy Berhad is Ringgit Malaysia.

Blue Energy Berhad expanded the operation to a foreign country, South Land, by incorporating a wholly owned subsidiary, Synergy Ltd on 1 January 2016. The functional currency of Synergy Ltd is S\$.

The financial year end of both companies is 31 December annually. The summarized financial statements of the two companies are as follows:

Statement of Profit or Loss for the Year Ended 31 December 2018

	Blue	Synergy	
	Energy	Ltd	
	Berhad	RM'000	S\$'000
Profit before tax	1,500	1,100	
Cost of sales	(900)	(600)	
Gross Profit	600	500	
Administrative expenses	(200)	(180)	
Profit after taxation	400	320	
Taxation	(200)	(160)	
Profit after taxation	200	160	

Statement of Financial Position as at 31 December 2018

	Blue	Synergy	
	Energy	Ltd	
	Berhad	RM'000	S\$'000
Non-current assets	1,200	2,800	
Accumulated depreciation	(500)	(400)	
	700	2,400	
Investment in Synergy Ltd	750	-	
Current assets			
Inventory	450	400	
Bank	300	200	
Trade payables	(200)	(220)	
Loans	(100)	(220)	
	1,900	2,560	
Ordinary shares	600	2,000	
Retained earnings	1,300	560	
	1,900	2,560	

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Additional information:

The following exchange rates are relevant:

1 January 2016	S\$4:RM1
1 January 2018	S\$2:RM1
31 December 2018	S\$1:RM1
Average rate for year 2018	S\$1.6:RM1

Required:

In compliance with the MFRS 121: *The Effects of Changes in Foreign Exchange Rates* and using the net investment method:

- a) Prepare the translated Statement of Profit or Loss for the year ended 31 December 2018.
(2 marks)
- b) Prepare the translated Statement of Financial Position as at 31 December 2018.
(5 marks)
- c) Compute the goodwill on consolidation.
(2 marks)
- d) Prepare the reconciliation of the exchange difference for year 2018.
(3 marks)
- e) Prepare the Consolidated Statement of Profit or Loss for the year ended 31 December 2018.
(4 marks)
- f) Prepare the Consolidated Statement of Financial Position as at 31 December 2018.
(9 marks)

(Total: 25 marks)

QUESTION 2

Part A

Big Berhad is a Malaysian listed company that engages in the plantation business. The company is planning to diversify the business and is considering purchasing Medium Berhad. Medium Berhad engages in the property development business.

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The following financial information of Medium Berhad has been furnished to Big Berhad for decision making.

Year	2018	2017	2016	2015
Profit after tax (RM)	20,200,000	19,400,000	17,800,000	17,000,000
Total dividends (RM)	12,000,000	11,200,000	10,400,000	10,000,000
			RM	RM
Non-current assets				182,000,000
Current assets				
Inventory			7,600,000	
Trade receivables			9,000,000	16,600,000
Total assets				<u>198,600,000</u>
Equity finance				
Ordinary shares			40,000,000	
Reserves			<u>94,400,000</u>	134,400,000
Non-current liabilities				
8% bonds				50,000,000
Current liabilities				<u>14,200,000</u>
Total liabilities				<u>198,600,000</u>

The shares of Medium Berhad are RM1.00 per share and the market value is RM8.00 per share. The property development sector has an average price/earnings ratio of 10 times.

80% of the trade receivables are expected to be collectible in the event of liquidation. The expected net realizable values of the non-current assets and the inventory are RM172,000,000 and RM8,400,000, respectively.

Required:

Analyze the above financial information to recommend to the directors of Big Berhad on the range of price per unit to be offered to Medium Berhad, using:

- a) net asset value (liquidation basis). (7 marks)
- b) price/earnings ratio method using the business sector average price/earnings ratio. (3 marks)

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Part B

The accountant of Green Life Berhad is preparing the interim report of the company for the period ended 30 September 2017. The financial year end is 31 March annually. Upon finalizing the financial statement, he needs recommendations from you, as the consultant, on the following financial information:

- a) The cost of inventories was RM3,400,000 as at 30 September 2017. After the assessment of market information, the net realizable value on 30 September 2017 was RM2,800,000. The inventories had a realizable value of RM3,600,000 on 31 March 2018.
- b) The associate of Green Life Berhad was expected to declare dividends on 1 July 2017. However, due to the unresolved issues in July 2017, the subsidiary declared it on 1 December 2017.
- c) Green Berhad organizes family day event annually, as part of the staff retention strategy. Green Berhad planned to organize the event in August 2017. However, the event was organized in February 2018 amounting to RM100,000.

Required:

In compliance with MFRS 134: *Interim Financial Reporting*, analyze the financial information recommending to the accountant on the recognition, measurement and the impact on the interim profit as at 30 September 2017.

(15 marks)

(Total: 25 marks)

QUESTION 3**Part A**

Simplicity Berhad is an event management company. The financial year end of the company is 31 July annually. The directors of Simplicity Berhad were having the opinion that offering shares as an employee benefit will retain good talents in the company. Therefore, a total of 200,000 options were offered to the employees on 1 August 2016 with 4 years vesting period.

The fair value of each option was RM3.50 and they are exercisable from 1 August 2020. The company tax rate is 24%. The intrinsic values are as follows:

	RM
31 July 2017	4
31 July 2018	5

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Required:

In compliance with MFRS 2: *Share-based payments*, evaluate the impact of the above transaction on accounting and deferred tax as at 31 July 2017 and 31 July 2018.

(10 marks)

Part B

Smile Berhad, a Malaysian listed company, has the following extract of statement of financial statement and tax bases as at 31 December 2018:

	Carrying amount RM	Tax base RM
Plant and equipment	4,100,000	3,900,000
Investment	400,000	350,000
Trade receivables	160,000	200,000
Bank	750,000	750,000
Trade payable	5,000	5,000
Borrowing	200,000	220,000
Deferred tax liability brought forward	5,000	-
Share capital	3,200,000	3,200,000
Retained earnings	2,000,000	1,500,000

Additional information:

- i) The investment was classified at fair value. The cost for acquiring the investment is RM350,000.
- ii) Smile Berhad provides for general provision for doubtful debts of 20%. Tax rule recognizes specific bad debts only.
- iii) Smile Berhad acquired a borrowing during the year and recorded it net of transaction costs. The transaction costs are allowable in the year in which the loan raised.
- iv) Income tax had changed from 25% to 24%.

Required:

In compliance with the MFRS 1112: *Income Taxes*, evaluate the deferred tax implications by showing the impact on the recognition of expense and liability.

(15 marks)

(Total: 25 marks)

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QUESTION 4**Part A**

Big Cup Berhad engages in the manufacturing business. The financial year end is 30 April annually. On 1 March 2016, Big Cup Berhad purchased from Big Tea Berhad a 10-year debenture for RM5,000,000 with an interest rate of 8% to be received at the end of each year. The effective interest rate is 10%.

On 1 March 2018, Big Cup Berhad discovers that Big Tea Berhad had a financial difficulty. Big Cup Berhad estimates that Big Tea Berhad will not be able to pay the interest for the current year and will be able to pay only 60% of the principal amount.

Required:

Justify how the above transaction should be recognized and measured on 1 March 2018, in compliance with the MFRS 9: *Financial Instruments*.

(12 marks)

Part B

Wonderful Berhad, a Malaysian listed company, offers an attractive post-employment benefit to the employees on 1 April 2016 as part of the staff retention initiative. The financial year end is 31 March annually. On 31 March 2017, Wonderful Berhad estimated that its present obligation on a defined benefit scheme was RM8,000,000 using a 10% discount rate. The company contributed the same amount to a third party to manage its plan asset.

On 31 March 2018, the actuaries estimated that the return on plan assets will be 15% and the present obligation is RM14,400,000. The current service cost is RM8,200,000 and contribution to the plan assets is RM7,000,000. The fair value of the plan assets at the end on 31 March 2018 is RM13,000,000. 2 employers retired and RM4,000 is paid. Contributions to the fund and benefits are paid at the end of the year.

Required:

In compliance with MFRS 119: *Employee Benefits*:

a) Measure the obligation and plan assets as at 31 March 2018.

(6 marks)

b) Explain the recognition of obligation and plan assets in (a) by illustrating the journal entries for the year ended 31 March 2017 and 31 March 2018.

(7 marks)

(Total: 25 marks)

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